

**TENNESSEE GENERAL ASSEMBLY  
FISCAL REVIEW COMMITTEE**



**FISCAL NOTE**

**SB 2054 – HB 2182**

March 20, 2009

**SUMMARY OF BILL:** Establishes a graduated income tax with six rate brackets ranging from 3.5 percent to 7.75 percent; reduces the Hall Income Tax (HIT) rate from six percent to three percent for tax year 2010 and eliminates the HIT beginning with tax year 2011; holds local government harmless from loss of HIT revenue in the first year and phases out local government distribution over subsequent years; reduces the state sales tax rate from seven percent to 6.75 percent; exempts food and food ingredients from state and local sales tax; eliminates the local option sales tax; holds local government harmless from loss of all sales tax revenue (state-shared and local option); makes multiple changes to apportionment of state sales tax revenue.

**ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – Net Impact –**

**\$1,705,200,000/FY09-10**

**\$3,147,000,000/FY10-11**

**Exceeds \$3,173,000,000/FY11-12 and Subsequent Years**

**Decrease State Revenue –**

**\$21,100,000/FY09-10/Dept. of Revenue**

**\$21,500,000/FY10-11/Dept. of Revenue**

**Exceeds \$22,000,000/FY11-12 and Subsequent  
Years/Dept. of Revenue**

**Increase State Expenditures –**

**\$1,901,500,000/FY09-10/General Fund**

**\$31,681,700/FY09-10/Dept. of Revenue**

**\$1,974,600,000/FY10-11/General Fund**

**\$40,133,800/FY10-11/Dept. of Revenue**

**Exceeds \$2,043,200,000/FY11-12 and Subsequent  
Years/General Fund**

**\$40,133,800/FY11-12 and Subsequent Years/Dept. of Revenue**

**Decrease Local Revenue – Net Impact –**

**\$3,800,000/FY10-11**

**\$16,000,000/FY11-12**

**Exceeds \$24,700,000/FY12-13 and Subsequent Years**

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Assumptions:

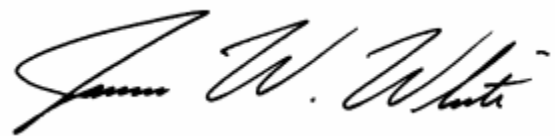
- Based on information provided by the Department of Revenue (DOR), major computer and programming system changes will be required throughout the Department to implement the provisions of this bill. The initial one-time increase to state expenditures in FY09-10 for the beginning stages of such modifications is estimated to be \$3,719,400. Additional recurring state expenditures are anticipated for subsequent modifications over the next several years as certain taxes and apportionments are changed and/or phased out. It is anticipated that such expenditures would be required for a period of three years until the new tax system has been firmly established. Such increase to recurring state expenditures is estimated to be \$19,298,200 per year beginning in FY10-11 and ending with FY12-13.
- According to DOR, the department would need considerable additional resources for implementing the provisions of this bill. The Department indicates that 356 additional positions will be required (119 in Taxpayer Verification Services; 28 in the Audit Division; 54 in the Revenue Enforcement Division; two in Fiscal Services Division; five in the Special Investigations Division; three in the Legal Division; 47 in Information Technology Resources; and 98 in the Processing Division). The associated increase to recurring state expenditures is estimated to be \$20,835,600 (\$10,748,800 salaries, \$6,436,300 benefits; \$3,650,500 other). The associated one-time increase to state expenditures is estimated to be \$7,126,700 (computers, software, communications, supplies, equipment, etc.).
- Based on information provided by DOR, the following are estimates for FY09-10: Decrease to state sales tax revenue of \$215,000,000 (for general items); decrease to state sales tax revenue of \$526,700,000 (for food items); decrease to state sales tax revenue of \$48,800,000 (from eliminating single article tax); a decrease to state sales tax revenue of \$2,400,000 (from reduction of tax for telecommunications businesses); a decrease of state revenue of \$20,200,000 (professional privilege tax credits); and an increase to state revenue of \$2,518,300,000 (from the proposed state income tax). The net change to state revenue for FY09-10 is estimated to be \$1,705,200,000.
- Based on information provided by DOR, the increase to state expenditures for holding local government harmless from loss of sales tax revenue is estimated to be \$1,901,500,000 for FY09-10. Such payment will be paid from the General Fund.
- Based on information provided by DOR, the following are estimates for FY10-11: Decrease to state sales tax revenue of \$219,300,000 (for general items); decrease to state sales tax revenue of \$550,400,000 (for food items); decrease to state sales tax revenue of \$49,800,000 (from eliminating single article tax); a decrease to state sales tax revenue of

\$2,400,000 (from reduction of tax for telecommunications businesses); a decrease of Hall Income Tax revenue of \$102,500,000; a decrease of state revenue of \$29,400,000 (professional privilege tax credits); and an increase to state revenue of \$4,100,800,000 (from the proposed state income tax). The net change to state revenue for FY10-11 is estimated to be \$3,147,000,000.

- Based on information provided by DOR, the increase to state expenditures for holding local government harmless from loss of sales tax revenue is estimated to be \$1,974,600,000 for FY10-11. Such payment will be paid from the General Fund.
- Based on information provided by DOR, the following are estimates for FY11-12 and subsequent years: Decrease to state sales tax revenue of \$223,700,000 (for general items); decrease to state sales tax revenue of \$572,400,000 (for food items); decrease to state sales tax revenue of \$50,800,000 (from eliminating single article tax); a decrease to state sales tax revenue of \$2,500,000 (from reduction of tax for telecommunications businesses); a decrease of Hall Income Tax revenue of \$213,200,000; a decrease of state revenue of \$30,000,000 (professional privilege tax credits); and an increase to state revenue of \$4,265,600,000 (from the proposed state income tax). The net change to state revenue for FY11-12 and subsequent years is estimated to exceed \$3,173,000,000 per year.
- Based on information provided by DOR, the increase to state expenditures for holding local government harmless from loss of sales tax revenue is estimated to exceed \$2,043,200,000 for FY10-11 and subsequent years. Such payments will be paid from the General Fund.
- According to DOR, the Department will lose fee revenue for the collection of local option sales tax for local governments. Eliminating the local option sales tax will reduce DOR fee revenue by approximately \$21,100,000 in FY09-10; by \$21,500,000 in FY10-11; and by an amount exceeding \$22,000,000 in FY11-12 and subsequent years.
- Based on information provided by DOR, the net impacts to local government are estimated as follows: a net decrease to revenue of \$3,800,000 in FY10-11; a net decrease of \$16,000,000 in FY11-12; and a net decrease of \$24,700,000 in FY12-13 and subsequent years.

### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

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